Spring 2014

Dental Focus

A fresh approach to achieving lifelong prosperity

Contents:

HAZLEWOODS

DRIVING LIFELONG PROSPERITY

Employment Allowance

From 6 April 2014 an Employment Allowance is available for employers to reduce their Class 1 National Insurance bill by up to £2,000 each tax year.

As would be expected for any allowance, there are certain eligibility criteria. One of the key factors for dentists is that you cannot claim if you carry out more than 50% of your work in or for the public sector. Predominately private dental practices should therefore be able to claim the allowance whereas predominately NHS dental practices will not. However, at the time of writing, exactly how the 50% will be measured has yet to be determined, so borderline cases will need to wait for the legislation to be enacted.

Where there are two or more connected businesses only one may claim the allowance. A principal with two private practices each with a separate PAYE scheme could only claim a maximum of £2,000.

How to claim

The employment allowance should be claimed through your payroll software or HMRC's Basic PAYE Tools. The allowance can be claimed as soon as an employer's Class 1 NI liability arises. Depending on the size of the practice the £2,000 could be claimed in April 2014 or spread over several months.

For example, if your employer's Class 1 NI liability was £750 each month, the allowance would be £750 in April 2014, £750 in May 2014 and £500 in June 2014. After this the full liability will be due each month, until the new tax year.

You can start claiming at any point during the tax year, provided you meet the eligibility criteria. In the above example, if a claim was first made in September 2014 the full £2,000 could be claimed immediately because a Class 1 NI liability of £750 each month has already arisen in the 2014/15 tax year.

If your circumstances change and you are no longer eligible to claim you should stop claiming by following the instructions on your payroll software. If you become ineligible during a year no allowance is available. Any allowance claimed to date would therefore have to be repaid.

In future, you will be able to make an historic claim for up to 4 tax years, the earliest being 2014/15. Employers therefore have until 5 April 2019 to make a claim for the 2014/15 tax year, although if you are eligible you might as well claim as soon as possible. Where retrospective claims are made the allowance will be offset against future liabilities or repaid.

Record keeping

Records relating to Employment Allowance should be kept for a minimum of 3 years from the end of the tax year in which a claim was made. The records should show:

- Why you were entitled to make a claim.
- How much was claimed (or, if applicable, repaid).
- What liabilities the allowance covered.

Autumn statement reminder

With the new tax year nearly upon us, here is a reminder of some of the main points announced in the Chancellor's Autumn Statement in December 2013.

For small businesses, the business rates relief, which was due to end in April 2014, has been extended by one year. Also any rate increases from April 2015 will be capped at 2% per annum. Further help for all business comes in the form of an exemption from April 2015 for employer National Insurance contributions on all employees under the age of 21 who are earning less than £813 a week.

For individuals, the personal allowance was confirmed as rising to £10,000 in April 2014. In addition a new, transferrable married couple's allowance of £1,000 will be introduced for basic rate taxpayers in April 2015.

Fuel duty is to be frozen next year, meaning that the price of a litre of fuel will be 20p cheaper than if the previous Government's fuel escalator had continued to apply.

As has become a regular announcement, more anti avoidance legislation is to be introduced. This will target individuals using companies to avoid an employer/employee relationship being created. The detail will need to be reviewed as to how this is going to impact on individuals and businesses alike.

The biggest hits on the taxpayer came in respect of capital gains tax. Firstly, non residents will be required to pay capital gains tax on any property held by them in the UK from April 2015. There was more of a shock in respect of private residence exemption, which has remained untouched for many years. Under current legislation, if the property has been your private residence at some point, the last three years of ownership is automatically exempt, regardless of whether it was your private residence at the time of sale. This is to be halved to 18 months from April 2014 and is expected to raise an additional £360m for the Government's coffers by April 2019.

With just over a year before the next election, the Chancellor must be quite happy with the message he's been able to deliver although, as he pointed out, we've still got quite a way to go. Hopefully the recovery will continue and George Osborne will be able to give everyone some gifts in the Budget on 19 March 2014.

What is Automatic Enrolment?

The government has introduced a new law to make it easier for people to save for their retirement. It requires all employers to enrol their workers into a qualifying workplace pension scheme if they are not already in one. At present, many workers fail to take up valuable pension benefits because they do not make an application to join their employer's scheme. Automatic enrolment is meant to overcome this.

What is a qualifying workplace scheme?

- A defined contribution scheme with a minimum contribution; or
- A defined benefit or hybrid scheme which meets certain conditions.

Who does this affect?

Employers have to automatically enrol workers who:

- Are not already in a qualifying workplace pension scheme;
- Are at least 22 years old;
- Are below state pension age;
- Earn more than £9,440 a year (2013/14 minimum threshold); and
- Work or ordinarily work in the UK (under their contract).

A worker is defined as a wider category than just employees and can include some contractors and agency workers. As a general rule, if you have to pay the national minimum wage to someone, or they are working under an apprenticeship, they are a worker. However, even if a worker does not qualify to be automatically enrolled, he or she still has the right to join the scheme. An employer must let a worker opt in to the scheme, if they wish.

When is this happening?

Automatic enrolment commenced on 1 October 2012 and employers with over 250 employees should have already enrolled their employees. For smaller employers, the staging dates will be based on the following schedule:

- Those with between 50 and 249 employees will be staged between 1 April 2014 until 1 April 2015;
- Those with between 30 and 49 employees will be staged between 1 August 2015 and 1 October 2015.
- Those with fewer than 30 employees will be staged between 1 January 2016 and 1 April 2017, depending on their PAYE reference number.

How much are the contributions?

Defined Benefit

The NHS superannuation scheme is a defined benefit scheme. Contributions vary depending on the level of earnings. In addition to the individual's contributions the NHS makes an employer contribution of 14% of pensionable earnings.

Defined Contribution

The minimum contribution level required for an automatic enrolment scheme is based on qualifying earnings. Qualifying earnings is a band of earnings between £5,668 and £41,450. These figures are for the 2013/14 tax year and will be reviewed each year. Qualifying earnings include salary, wages, overtime, bonuses, commissions, statutory sick pay, statutory maternity pay, ordinary or additional statutory paternity pay and statutory adoption pay.

To allow you to spread the cost of your employer duties you can phase in the minimum contributions as shown in the table below.

The total can be made up from an entirely employer funded contribution or a mixture between employer and employee. The contributions will benefit from tax relief. These are minimum contributions and both employer and employee can pay more if they wish.

A little known quirk

If you are considering the incorporation of your practice, here is a little known fact about pension auto enrolment. In short, the process of incorporation can result in the staging date for the new pension arrangements being extended. The reason for this is that when a business changes its legal structure a new PAYE scheme reference number is issued. Despite the fact that this is clearly an extension of the same employment so far as employees are concerned (TUPE regulations apply), it has the effect of treating the situation as a 'new business' for auto enrolment purposes.

We agree that this might sound unlikely, but it is true. It has been confirmed in writing by the Government's Auto Enrolment Office.

Here to help

If your business does not have a pension scheme in place, you would like advice regarding implementing a "qualifying scheme" or just want to find out more, please contact the Financial Planning team based at our Staverton office who shall be happy to help.

	Total must be at least	Employer must contribute
Oct 2012 to Sept 2017	2%	1%
Oct 2017 to Sept 2018	5%	2%
Oct 2018 onwards	8%	3%

Letting go - How you hold rental property can have major tax implications

What came first, the tax or the business advantage? In truth, this is often hard to call but when determining how to own your rental properties the first question should not be 'how do I cut my tax?' but 'what do I want from this business?'

There are a wide range of tax related factors that need to be considered to come to a fully informed decision. The right combination for you will depend on what you are planning for the commercial venture just as much as how much tax could be saved.

The factors include:

Attitude to risk - are you more comfortable with recognised arrangements and simple structures or are more complex arrangements more attractive? Although they normally deliver a greater potential return, they are inherently risky.

Business strategy - are you looking for a quick return by buying and selling your properties as well as renting or do you expect to hold them for a while and grow a portfolio, for example? What is your strategy? By understanding your goals you can tailor the tax planning to suit.

Financing position - is there debt in your business? What are the terms of the lending? Banks can require minimum interest cover levels that can affect the ease with which you can extract cash, for example. Interest payments need to be deductible and ideally relieved against income taxed at higher rates.

Flexibility - do you have an exit route planned or do you want to be able to flex your arrangements depending on what the future holds? Will you want to involve family members now or later?

Ownership options to consider

Personal

Often the easiest and quickest route, owning the properties directly means that the rental income is taxed at your marginal rate, as is any gain on eventual disposal. The chart shows that, in a simple case of a capital gain on disposal, this delivers the most net cash after tax too. However, once complicating factors such as debt, multiple properties and managing commercial risk are brought into the equation, other options may become more attractive.

Joint ownership

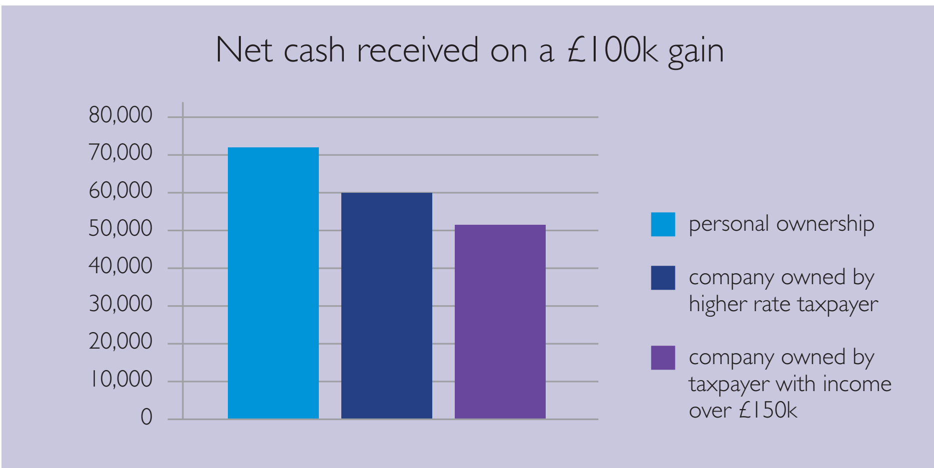
Often an option for family businesses is to jointly own the property portfolio. Ownership, rental income rights and costs can be spilt, often using a Partnership Agreement, to use up basic rate tax bands and personal allowances. The down-side to this option is that you incur legal fees and decision making can be laborious if everyone has to be involved.

Company ownership

Ring fencing your liabilities by using a company to own the property(ies) is a popular option, especially for higher rate taxpayers who are not looking to take money from the business, but to reinvest it in more properties or keep the cash as a 'pension pot' for later in life. If the £100k in the chart is not extracted from the company, corporation tax is at 20% (assuming it is a small company) leaving cash for reinvestment of £80,000.

Other options

Pension funds are a possibility (so long as your property isn't residential) - income and gains will accumulate in a tax free environment, obviously an attractive option. However,



extracting that value can be onerous and you will need to deal with the trustees of the fund, possibly increasing costs and reducing flexibility. There are also financing thresholds to be aware of. Finally, putting any previously owned properties into a pension fund will trigger a charge on any unrealised gain at that point - pensions work better for new acquisitions.

There are many variations on these basic themes out there and each needs to be considered against the commercial and tax factors outlined here.

The impact of Stamp Duty Land Tax also needs to be included as it can be a substantial part of the final bill.

Please get in touch and we will guide you through the available options.

Factor	Personal ownership	Partnership	Corporate ownership	Owned by a pension fund
Set up	Easy	Medium	Medium	Medium
Running costs	-	-	Annual returns, professional fees	Fund manager fees, professional fees
Flexibility	Good	Medium	Good/Medium	Low
Risk profile	Medium	Medium	Low/Medium	Low/Medium
Ease of access to cash	Good	Good	Medium	Low
Capacity for growth plans	Medium	Medium	Good	Medium

Tax planning tips for 2013/14

Now that the tax return filing deadline of 31 January has passed, it is time to review your tax affairs before the current tax year ends on 5 April 2014. Here are a few points to consider.

1 Married couples should use both personal allowances and basic rate tax bands

Each individual has a tax free personal allowance of at least £9,440 provided their income does not exceed £100,000. Ensuring both spouses' personal allowance and basic rate tax bands are used is a simple tax planning measure. Income earning assets could be transferred to the lower earning spouse to minimise the overall family tax bill.

Clearly, this will need to be done properly, as anti-avoidance legislation could apply. However, this can save a married couple a significant amount of tax over the years.

2 Child benefit

Child benefit is restricted where one individual in a household has an income over £50,000. Where possible, income should be equalised between husband and wife to ensure that the child benefit restriction is minimised.

3 Annual Investment Allowance

Timing capital expenditure to reduce taxable profits where they are expected to be subject to higher rates of tax is another simple tax planning measure. Remember that the marginal rate of tax for those earnings between £100,000 and £118,880 is 60%, so good timing can have a significant effect on your tax bill in the right circumstances.

4 Capital Gains Tax annual exemption

Each individual currently has an annual exemption which means that the first £10,900 of capital gains are tax free. Therefore spouses should consider transferring assets to each other before disposal to ensure the annual exemption is utilised, which could save tax at 28%. It may also be more tax efficient to crystallise a capital loss in the year before making a capital gain, rather than in the same year as the gain, as a loss brought forward is only set against gains after the annual exemption has been utilised.

5 Pension contributions

Pension contributions receive tax relief at an individual's marginal rate. They can therefore be used to reduce exposure to higher or marginal rates of tax, provided the contributions are made within the tax year.

Of course, the annual allowance needs to be considered when determining the level of pension contributions, so take professional advice first.

6 Gift Aid donations

Donations to charity under Gift Aid can also generate tax savings. They effectively extend the tax thresholds to provide tax relief in a similar way to pension contributions, reducing your tax bill if you are a higher or additional rate taxpayer.

7 Inheritance tax exemptions

Where possible, take advantage of the annual gift exemption of £3,000. This can be for one large gift or several smaller gifts. If you have not used the exemption in one year it can be carried forward to the following year. Other gifts, such as wedding gifts or regular gifts out of income are also exempt.

8 Make tax free investments

Consider utilising your ISA allowance of £11,520 for 2013/14, half of which can be invested in a cash ISA. For children, up to £3,720 can be invested by parents, family or friends in a Child Trust Fund (CTF) for 2013/14. Where a child is not eligible for a CTF, the same amount can be invested in a Junior ISA instead.

Superannuation contributions - further changes

Further increases to superannuation contribution rates are proposed from April 2014. These are subject to parliamentary approval and are summarised in the chart opposite.

Tax relief is available on the contributions paid. The calculation of pensionable earnings often causes confusion. Revised guidance for calculating pensionable pay was issued by NHS Pensions last year and if you would like a copy please do not hesitate to get in touch.

What benefits are available?

NHS dentists arguably have the best of both worlds, being self-employed from a tax perspective yet treated as employees for some aspects. As well as the pension benefits accruing from the NHS pension scheme, the following are available:

- Sick pay
- Maternity pay
- Paternity pay
- Death in service lump sum
- Survivor benefits

The above are all based on pensionable pay, so it is important to ensure you are declaring the correct pensionable earnings.

If you have any queries about pensions our colleagues in Hazlewoods Financial Planning LLP shall be happy to help.

Tier	Pensionable earnings	2013/14 contribution	2014/15 proposed contribution	Percentage increase
1	Up to £15,431.99	5%	5%	0%
2	£15,432.00 to £21,387.99	5.3%	5.6%	5.7%
3	£21,388.00 to £26,823.99	6.8%	7.1%	4.4%
4	£26,824.00 to £49,472.99	9%	9.3%	3.3%
5	£49,473.00 to £70,630.99	11.3%	12.5%	10.6%
6	£70,631.00 to £111,376.99	12.3%	13.5%	9.8%
7	£111,377.00 and above	13.3%	14.5%	9%

News in brief

Companies and loans to directors or shareholders

Historically, most dental practices have been operated as sole traders or partnerships. Many now operate as a limited company, which can be tax efficient.

A company is a separate legal entity which has implications when loans are made to directors or shareholders. The rules relating to the tax treatment of such a loan have changed since 5 April 2013.

Where such a loan is made, if it is not repaid within nine months of the end of the accounting period in which the loan was made, an amount of 25% of the loan still outstanding at the nine months date must be paid to HM Revenue & Customs. This is only refunded when the loan is totally cleared.

Previously, it was possible to prevent this charge arising by repaying the loan in the required timescale and subsequently withdrawing the amount shortly afterwards.

From 5 April 2013, this is no longer possible without incurring the 25% charge. If there is an "expectation" that the loan will be subsequently withdrawn, the 25% charge will be due. Individuals and companies affected by the change should review their current arrangements to ensure they are tax efficient.

Annual Investment Allowance (AIA)

The AIA was temporarily increased to £250,000 for two years from 1 January 2013, so will revert back to £25,000 from 1 January 2015. As a reminder, qualifying expenditure up to the limit will receive a 100% deduction against taxable profits. If you are planning any significant capital expenditure in the next year or two, it is worth reviewing the timing of this to ensure the AIA is maximised.

As has been the case in the past, transitional rules will apply where a business does not have a 31 December accounting year end. Please get in touch to discuss your plans and the timing of these important allowances.

Capital allowances on fixtures and fittings

You may recall that for buildings acquired on or after 1 April 2012 a purchaser can only claim capital allowances on fixtures within the property if he and the seller have signed a joint s.198 election to agree a value for such fixtures on which the seller has previously made a claim, or if the value has been agreed by a tax tribunal. It should be noted that this only relates to expenditure on which the seller has claimed capital allowances.

From 1 April 2014, this is extended so that a purchaser will be unable to claim capital allowances on any fixtures on which the seller could have made a claim for capital allowances unless the seller has first brought the costs, and then a disposal value, into their tax computations.

These conditions are already having an effect on property transactions as they require a significant amount of information to be extracted from the seller in order to substantiate the purchaser's claim and the transfer value agreed between the two parties. If you think you will be affected our capital allowance experts will be happy to advise.

HMRC - phishing e-mails

HMRC have issued a further warning about phishing e-mails, which ask you to enter bank or credit card details to obtain a tax refund. HMRC will never contact you about a tax refund by e-mail.

If you receive an email claiming to be from HMRC which offers a tax rebate, please send it to phishing@hmrc.gsi.gov.uk and then delete it permanently. Do not click on any links, websites or attachments contained in these e-mails.

In 2013 HMRC closed down 1,476 websites which sent these phishing e-mails.

Pension annual allowance

From 6 April 2014 the annual allowance for pension contributions will reduce to £40,000 from the current £50,000. For money purchase pension schemes it is the amount paid in (including any tax relief) which counts towards the limit. For the NHS superannuation scheme it is the increase in the value of the pension scheme benefits, after adjusting for inflation using the Consumer Price Index.

NHS Pensions should issue a pension savings statement to show the level of increase. However, some of our clients have not yet received one for 2012/13! Whilst you may think you are not affected it is important to check, particularly if you contribute to both the NHS and private schemes.

Unused annual allowance can be carried forward for up to three years. If the allowance is exceeded an annual allowance charge may be incurred. It is possible to opt for the NHS scheme to pay this charge where it exceeds £2,000, however, as this could affect your future pension professional financial advice should be sought. The deadline for submission of a "scheme pays election" for 2012/13 is 31 July 2014.

Incorporation

In June 2013 NHS England issued new guidance for dealing with requests for the incorporation of dental practices holding NHS contracts. This has resulted in a more consistent approach for Area Teams to follow.

Considering the structure of your practice can result in significant savings. However, the incorporation must be done properly to protect both principal and any associates working in the practice. HMRC are becoming more focussed on the incorporation process and there are other significant factors to consider, for example the NHS pension and your future plans.

Everyone's circumstances are different and professional advice should be sought. We have advised many practices on the pros and cons of incorporation since the law was changed in 2006 and individual savings can be significant. Please get in touch to discuss this further.

Hazlewoods Dental Team

Graham Rew Partner
t: 01242 680000
e: graham.rew@hazlewoods.co.uk

Nigel Utting Director
t: 01242 680000
e: nigel.utting@hazlewoods.co.uk

Gemma Sterry Accounts Senior
t: 01242 680000
e: gemma.sterry@hazlewoods.co.uk

Glenn Collingbourne Tax Manager
t: 01242 680000
e: glenn.collingbourne@hazlewoods.co.uk

Services

Our dental team is happy to discuss matters arising from this newsletter, as well as any other issues relating to your business or personal affairs. Our dental team is based at our Staverton office.

- Accounting and bookkeeping
- Taxation and compliance services
- Management accounts
- Business planning and practice review
- Financial forecasts
- Computer software advice to include installation and training on Sage
- Financial planning
- Payroll assistance
- Advice on buying or selling a practice
- Benchmarking and practice profitability advice
- Partnership changes
- Incorporation
- Tax planning

Hazlewoods Dental Team

Staverton Office:
Staverton Court
Staverton, Cheltenham, GL51 0UX
Tel: 01242 680000 Fax: 01242 680857

@Hazlewds_Dental

www.hazlewoods.co.uk